

CASE 2

Starbucks' Mission: Social Responsibility and Brand Strength

CASE NOTES FOR INSTRUCTORS:

Students will likely have strong opinions regarding Starbucks. Many may be committed patrons who view Starbucks as a socially responsible company committed to green practices and free-trade coffee. Others might dislike Starbucks because it is a large chain that pushes out smaller local competitors. Another possible reason students may be opposed to Starbucks are its prices, which are higher than many of its competitors. Starbucks seems to be able to justify its higher prices because the company sells more than just coffee—it sells an experience. Starbucks patrons can order specialty drinks and hang out in what founder Howard Schultz envisioned to be the “third place” to be after home and work. Love it or hate it, Starbucks has been very successful at branding.

Starbucks has had a profound influence on the U.S. coffee market. Before Starbucks came onto the scene, people perceived coffee as an uninteresting product largely consumed by older people in the United States. It did not have the “cool” factor or the cache that it does today. Starbucks’ entry in the market largely changed how Americans consumed coffee—and what they thought about coffee shops. It all started in the cold, gray climate of Seattle—the perfect setting for launching an appealing, warm, international beverage. Starbucks emphasized quality while service and location became a critical issue.

In spite of its popularity, Starbucks faltered during the most recent recession, when many customers cut back on discretionary purchases. This prompted the return of founder Howard Schultz as CEO. Schultz implemented a restructuring process at Starbucks and closed hundreds of stores. He sought a return to the value that initially made Starbucks a great company: quality. Today Starbucks is once again thriving, and even expanding into the consumer packaged goods market.

No matter what one thinks of Starbucks, it is more involved in social causes and the care of its workers than many comparable chains. Starbucks is committed to employee well-being, as one can see in its employee health care system. Howard Schultz made employee health care a priority after watching his father struggle with injuries because he had no access to employee health care or worker’s compensation. In large part because of its commitment to providing good wages and health care, Starbucks often ranks on *Fortune*’s “Best Companies to Work for.”

The company also has a history of giving to charities that affect its primary stakeholders. As part of its commitment to ethics and sustainability, the company launched its Shared Planet website, which communicates to interested stakeholders all of the company’s ethics and sustainability initiatives. The company is a large purchaser of Fair Trade Certified coffee and their partnership with Project Red raises money for HIV/AIDs research in Africa.

In spite of its professed commitment to caring for workers and for social causes, such a large company always will be subject to criticism. From complaints that Starbucks pushes smaller competitors out of markets, to criticisms that some of its coffee drinks are excessively fatty and caloric, Starbucks is facing many challenges. For instance, disposable cups pose a problem as the company strives to become more

eco-friendly. In light of some of its weaknesses, instructors may ask students whether they feel that Starbucks deserves its image as a socially responsible brand.

QUESTIONS AND DISCUSSION

1. *Why do you think Starbucks has been so concerned with social responsibility in its overall corporate strategy?*

It should be obvious from examining Starbucks' history that Schultz, the founder, was concerned with social responsibility from the very beginning. Because he made it an original core value of the company, it has remained a deeply ingrained part of the Starbucks culture. Starbucks also recognizes the benefits of customers perceiving Starbucks as a socially responsible company. Employees who receive health care are likely more satisfied because they feel that the company truly cares for them in a time when many organizations are scaling back on employee benefits. Consumers may be inclined to like Starbucks because of its many community and environmental initiatives. Thus, social responsibility for Starbucks is translating into good business.

2. *Is Starbucks unique in being able to provide a high level of benefits to its employees?*

Students should understand that, while Starbucks does provide very good benefits to most of its workers, this is not exactly unique. While lauding Starbucks is fine, it is true that many comparable sized chains do not treat their workers as well as Starbucks. For instance, many chains do not provide any benefits to part-time workers. However, other companies also have a mission of providing for their workers. Some examples students may cite are Green Mountain Coffee, Wegmans, Whole Foods, Timberland, and the Gap, as well as other retailers on the *Business Ethics* "100 Best Corporate Citizens" list.

3. *Do you think that Starbucks has grown rapidly because of its ethical and socially responsible activities or because it provides products and an environment that customers want?*

Students' answers to this question could provoke serious debate in class. If Starbucks had a poor record in its activities, it would suffer from diminished reputation, which could lead to lower profits and reduced customer loyalty. However, many customers likely go to Starbucks, not because of its social mission, but because they like the coffee or the coffee shop atmosphere. Many customers likely began frequenting Starbucks because the locations are convenient and continue to go as long as Starbucks remains a readily available option. On the other hand, its record in responsibility has been a major selling point for consumers who care where products come from and under what conditions. These people may choose Starbucks because they offer Fair Trade coffee and organic snack products when other local coffee shops do not. Most people probably will agree that, at least to a point, Starbucks' responsible activities have become a part of the total Starbucks product—a product for which many are willing to pay a premium price. In other words, both answers could be correct.

ADDITIONAL RESOURCES

- For an overview of Starbucks' Global Responsibility strategy and commitments, instructors may want to direct students to Starbucks' Global Responsibility Report, available online at: <http://globalassets.starbucks.com/assets/581d72979ef0486682a5190eca573fef.pdf>.